

# SMEs –The Trade Creditors

To what extent are SMEs being assisted to continue growing and creating more jobs that add value to the economy? Questions Josef Busuttil.

Recently published Eurostat figures show that there exist 21 million SMEs which are actively involved within the EU market economy. These firms generate two out of every three jobs of value added within the EU-27 non-financial business economy and a significant 92% of these businesses are micro-enterprises.

These figures confirm that SMEs are the backbone of our economy as in reality they represent the fulcrum that keeps the wheel of the economy turning. Therefore, all stakeholders - both the private and also the public sectors, should acknowledge the importance of SMEs for the future success of our economy.

To assist SMEs and hence, meet their needs and expectations, one has to get to know what they are demanding and what their specific requirements are.

This credit situation also suggests that SMEs selling goods and services on credit should adequately invest in their credit function in order to grant / extend credit to their customers and to manage their Accounts Receivables in a profitable and secure manner. They should invest in both their human resource in terms of

staff training, and also in effective credit management information systems, this would help them take proactive and profitable credit decisions.

The only way to take effective, profitable and competitive credit decisions, as well as to manage risk associated with credit, is basing credit decisions on accurate and timely information – Knowing Your Customer is imperative!

Credit management is all about being proactive. Hence, creditors should analyse the credit worthiness of both their prospective and existing customers, and this applies even more to SMEs that may be more vulnerable than larger firms due to their relative size and limited resources.

Having the basic information at hand, the Creditor would then be able to analyse the credit worthiness and establish the real worth of the customer requesting credit. If the customer is a firm, this exercise should include analysing the internal and external factors of the trade customer.

The internal factors may include the trade customer's strength in the market in terms of products and brand equity; the financial situation of the customer; any physical assets that the customer may possess; what systems and processes the customer deploys in doing business; the level of skill and competency of the customer's workforce; the customer-base and market share of the customer; the efficiency in terms of distribution channels used by the customer; the customer's economies of scale; the internal culture of the customer; and any existing agreements with other third parties.

The external factors that have to be taken into consideration by the Creditor may include the political stability and the legal framework of the market economy; the economic situation of the marketplace; any socio-cultural factors that may affect the trade customer requesting credit; the adequacy in the infrastructure required by the customer to operate his business; the level of competition; any market trends affecting the operation of the customer; and the market perception and rumours about the customer.

This task may sound to be challenging for the SMEs with relatively less resources than larger firms, but it is important to ensure sound cash flow and to turn credit risk into credit rewards in an effective manner.

In fact, this exercise requires several sources of



information, which may include, the Customer Information Form referred to above; the Sales Team who meets the customers and initiates the sales; the Registrar of Companies that provides Memos and Articles and financial statements of registered companies; Credit Reference Agencies that provide pertinent information

on the customer's credit history; Customer's website; Trade and Bank References; Industry Credit Circles; and onsite visits to get the real picture of the customer.

Nonetheless, the Creditor should always take into consideration the cost of his product at point of sale.

Getting to know the customer should be an on-going management process and should not stop once credit has been granted. Change has become today's business mantra and changes in business may affect the customers' trading affairs. A good 'profitable' customer today may not necessarily mean that s/he will remain good forever!

Therefore, creditors should strive to be proactive and maintain long-term business relationships with their customers. They should constantly and consistently seek to learn more about their customers and the marketplace that their customers operate in.

Continuously learning about your customer is one of the fundamental ingredients of the recipe for SMEs' business success. ■

**Josef Busuttil is the Director General at the Malta Association of Credit Management (MACM).**  
[www.macm.org.mt](http://www.macm.org.mt)

“ Getting to know the customer should be an on-going management process and should not stop once credit has been granted ”

“ Figures confirm that SMEs are the backbone of our economy as in reality they represent the fulcrum that keeps the wheel of the economy turning ”

